

BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

AGENDA

TUESDAY, FEBRUARY 8, 2011

(Immediately Following the Retirement Board of Trustees' Meeting @ Approximately 2:30 P.M.)

FINANCE DEPARTMENT LARGE CONFERENCE ROOM

515 CENTER AVENUE - 7TH FLOOR

BAY CITY, MI 48708

- | | | |
|-------------|-------|---|
| PAGE | I. | CALL TO ORDER |
| | II. | ROLL CALL |
| | III. | MINUTES |
| 1 - 6 | 1. | DECEMBER 14, 2010 |
| 7 - 9 | 2. | JANUARY 11, 2011 |
| | IV. | PUBLIC INPUT |
| | V. | PETITIONS & COMMUNICATIONS |
| 10 - 11 | A. | PORTFOLIO VALUE - FEBRUARY 3, 2011 |
| | VI. | ANNOUNCEMENTS |
| | A. | NEXT REGULAR MEETING - TUESDAY,
MARCH 8, 2011 IMMEDIATELY FOLLOWING
THE RETIREMENT BOARD OF TRUSTEES
MEETING @ APPROX. 2:30 P.M. - FINANCE
DEPARTMENT LARGE CONFERENCE ROOM,
515 CENTER AVENUE - 7TH FLOOR, BAY CITY,
MI 48708 |
| | VII.. | UNFINISHED BUSINESS |
| | VIII. | NEW BUSINESS |
| | IX. | MISCELLANEOUS BUSINESS |
| | X. | ADJOURNMENT |

MEETING OF THE V.E.B.A. BOARD OF TRUSTEES COMMITTEE ON

December 14, 2010

IN THE FINANCE DEPT CONFERENCE ROOM, LOCATED AT 515 CENTER AVENUE,
7TH FLOOR, BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: VICE CHAIR BILL DEATON

2:33 p.m.

OTHERS PRESENT: RICK POTTER, DANEAN WRIGHT, JEFF BLACK, CRYSTAL HEBERT

TRUSTEES

PRESENT:

BRZEZINSKI

COONAN/

DEATON/

GRAY/

GWIZDALA/

KELCHERMAN

PELTIER

STARKWEATHER

	1	2	3	4	5	6	7	8	9	10	11	12
BRZEZINSKI	S	Y	Y	Y	M	Y						
COONAN/	Y	S	S	Y	Y	Y						
DEATON/	Y	Y	Y	Y	Y	Y						
GRAY/	M	Y	Y	Y	S	M						
GWIZDALA/	Y	M	M	M	Y	S						
KELCHERMAN	Y	Y	Y	S	Y	Y						
PELTIER												
STARKWEATHER												

CODE:

M - MOVED; S - SUPPORTED; Y - YEA; N - NAY; A - ABSENT; E - EXCUSED

TRUSTEES

PRESENT:

BRZEZINSKI

COONAN/

DEATON/

GRAY/

GWIZDALA/

KELCHERMAN

PELTIER

STARKWEATHER

	13	14	15	16	17	18	19	20	21	22	23	24
BRZEZINSKI												
COONAN/												
DEATON/												
GRAY/												
GWIZDALA/												
KELCHERMAN												
PELTIER												
STARKWEATHER												

CODE:

M - MOVED; S - SUPPORTED; Y - YEA; N - NAY; A - ABSENT; E - EXCUSED

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

December 14, 2010

PAGE 1

The meeting, held in the Bay County Finance Department, 7th Floor, Bay County Building, 515 Center Avenue, Bay City, Michigan, was called to order by Bill Deaton at 2:33 p.m. Roll call was taken. All Trustees are present.

1. Moved, supported and carried to approve the minutes from November 9, 2010.

Mr. Deaton called for public input. Seeing no one from the public present, he moved onto petitions and communications.

2. Moved, supported and carried to receive the portfolio value as of 12/8/10.

Value as of yesterday was \$27 million.

3. Moved, supported and carried to approve the proposed 2011 Notice of Public Meetings.
4. Moved, supported and carried to approve the renewal of our contract with Becker Burke and Associates for consulting services of Richard Potter for V.E.B.A.

Announcements:

The next regular meeting is scheduled for Tuesday, January 11, 2011 immediately following the Retirement Board of Trustees Meeting at approximately 2:45 p.m. in the Finance Department, large conference room, 515 Center Avenue, 7th Floor, Bay City, Michigan 48708.

Unfinished Business: None

New Business:

Rick Potter, Consultant, states that at the last meeting some questions came up about the VEBA performance and what ought to be done about it. He presented several exhibits which highlight the key points to address and think about. He also summarized it in a letter with copies provided to the Board.

He discussed the long term cumulative results of Dodge and Cox and their low ranking in the September report. He discussed their ranking year by year and over the eight-year period we have had them. Dodge and Cox have not been a consistently low performer. On a five-year basis, they would still have a very good record. They had a very bad year in 2008 and had a high level of equity commitment which would hurt in a year like 2008.

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION
December 14, 2010
PAGE 2

What hurt their ten-year record were the years 2010 and 2008. If one or two poor years can bring down a record, one or two good years can bring a record right back. So, the question about a manager like Dodge and Cox is, do you ride it out, or look for something else? This manager has done a pretty good job for you until two recent years. Since this is a mutual fund, we are not looking at the individual pieces. Mr. Potter stated he contacted Dodge and Cox to get their quarterly returns, and the report indicated good returns.

Mr. Potter discussed their equity return and the fixed income side of the fund. Also their high equity commitment which in hind sight, hurt them. Mr. Potter makes the point that this is a balanced fund and we have no control over equity commitment. When VEBA was started, it had a little more than two million dollars. As you get more and more dollars it may make sense to maybe start to control the level of equity commitment as you do in the pension fund by setting an equity commitment policy. You can't do that right now because this is a balanced fund.

Mr. Potter suggests the following for the Board's consideration:

1. Change from a balanced fund format to an equity specialist format.
2. Make Dodge and Cox an equity specialist. (or their replacement, should the Board decide to do that)
3. Keep Atlanta Sosnoff as the growth stock equity manager.
4. Hire an outside bond manager.

To help you assess that I have some data from our investment manager research group. Dodge and Cox has what is called the Dodge and Cox stock fund. It is an equity fund. It is all equity, not a balanced fund, but the equities in it are exactly the same equities that are in the balanced fund. So, if you wanted to convert Dodge and Cox to an equity's specialist manager, that would be the obvious vehicle. We would take the Dodge and Cox balance equity money and put it in here. I talked to Dodge and Cox and there is no problem making the switch.

The other alternative is to do a search and bring in a different equity fund manager to replace Dodge and Cox.

Atlanta Sosnoff is a balanced fund that we had for one year, but it was a poor year. Mr. Potter discussed their cumulative and annualized composite return. The composite was for all portfolios that are run in exactly the same manner as ours. Their composite returns for ten years ranks top quarter, their composite for five years is almost top third despite the fact they had one very poor year in 2010. He states that in spite of

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

December 14, 2010

PAGE 3

a bad year, he thinks there is a reasonable chance for a turn around and does recommend making a change at this time.

Mr. Potter discussed bond managers and index funds. Index funds are very economical and bonds are very hard to manage for superior returns. Index funds are something people frequently think about for bonds. You take a major market index like the Barclay's Aggregate Bond Index that owns several thousand bonds in all parts of the market. The index fund manager buys three, four, or five hundred of those bonds with the idea of developing a group of holding that will produce the same return as the bond index. So, you will always get a market-like return not a return that is different, either good or bad.

Mr. Potter discussed an active manager i.e. Baird or Loomis Sayles and what that entails. He provided an illustration of active management using Baird and Loomis. If we bring in a bond manager and pay more in fees what are we getting for it?

Mr. Potter stated that if we decide to do a search he would recommend looking at both. Bring in an index fund manager and an active manager. After listening and talking to them determine what your feelings are.

The final part of the equation is fees. Bay County pays Dodge and Cox 53 basis points. They are a mutual fund, they are a very very large fund so they have very low fees. That has always been a positive for them. Bay County pays Atalanta Sosnoff 75 basis points. If you switched over Dodge and Cox money from a balanced fund to an equity fund, you would be paying 54 basis points, so essentially no difference there. Atlanta said they would charge you the same fee as balanced fund to run an all equity fund. That is a little bit of a bargain, but a balanced fund management is usually less than equity management so they are giving you a little break there by not changing the fee, keeping it the same as a balanced fund fee. The fees for active bond managers run between 25-40 basis points. The fees for indexed funds are 7-50 basis points. It would be ridiculous to hire a 50-basis point manager.

What could you save with index funds on a bond side of the fund, if you decide to go with that? According to these numbers it would be 18 basis points. That is the overall picture here in terms of what I think the questions that came up in various discussions we have had and also in terms of suggestions of thinking about thinking how to go forward. It is big enough that changing away from balanced fund makes sense. If you want to stay with balanced funds for a while, I don't think you are hurting yourself, just recognize that you have very high equity commitment in the VEBA right now.

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

December 14, 2010

PAGE 4

Trustee: What is the approximate distribution of this fund now between an equity balance fund, and what is the rate of which we need to manufacture money to pay off claims of the VEBA?

Mr. Potter: Right now in Dodge and Cox there are 72.8% equities and Atalanta Sosnoff is 16.5% equities. So say 67-68% overall.

Trustee: with the balance being in bonds?

Mr. Potter: Yes. On equities, switch from balanced to a strategy that is an equity specialist/bond specialist. On the bond side of things there are two ways of going. Active bond management, which you have in the pension fund already, or passive bond management, which are index funds. **You don't want both of those** strategies. You want to decide one or the other. On the equity side of things, you have a value manager, Dodge and Cox, and you have a growth manager, Atalanta Sosnoff. On the value side, you decide to stay with Dodge and Cox and look for a turn around, or you find another value manager to handle equities for you.

Mr. Potter states that any VEBA is terrifically underfunded. He thinks the overall liabilities of VEBA, recalling from the last actuarial report was more than 100 million dollars.

Ms. Wright comments that we don't know what impact the health care reform act will have. The whole idea behind this VEBA fund was eventually that the health insurance premiums for retirees would be able to be paid out of this fund. There are seven different financial groups. Everybody is underfunded but to different degrees. Behavioral Health is almost funded where they could start using the money.

There is a formula involved before you can start drawing money out to pay the health insurance premiums for the retirees. It is 7.5 times two years back before you can start drawing the money out. No one is at that point, with the exception of Behavioral Health. It is a good idea to keep the fees down, because not everyone is contributing to this fund, and they may not in the future due to the economy. There are two or three groups that are making contributions into the VEBA. It won't be like the retirement system where we have to actuarially fund it at a certain contribution rate. It is discretionary for every single group. These are just things to think about. It is a good idea to keep the fees down for the money managers depending on how things will go in the future.

Trustee: The individual units are paying the retired employees health expenses out of their regular budget?

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

December 14, 2010

PAGE 5

Ms. Wright: Yes, out of the general fund. When this was set up back in 2002, the retirement system was so over funded that we did not have to make the 4% employee contributions into the retirement fund. The idea was to set this up and start funding like we did with the retirement system. I think you need to think about the fees and keeping them as low as possible, given the uncertain future of this fund.

Trustee: Any reason why there is no section in real estate?

Mr. Potter: Generally, you need to have a certain amount of assets to make it worthwhile to go into real estate and other alternative investments. On the pension fund, you did go into REITS. It started out not too long at a two million-dollar fund, so just administratively we try to keep it simple.

Vice Chair, Mr. Deaton: We are going to have three new board members starting next year. We will have a new chairman, and I think this is something we need to study, and I would table it today.

There is further discussion regarding how things would be divided up. Mr. Potter states an analysis would be done to help the Board decide what percentage they would want in equities. At this time, the Board has no control over how much equities each manager has. By implementing these changes the Board would have control. Mr. Potter states that between value and growth we would keep that 50/50. If this continues to grow in terms of assets, we might want to consider adding international or mid-cap or something. We like to work with as few managers as possible to get good diversification, because of the administrative issues of keeping track of so many managers.

5. Moved, supported and carried to table Mr. Potter's report and recommendations regarding VEBA to the February 8, 2011 meeting.

Miscellaneous Business: None

6. Moved, supported and carried to adjourn the meeting at 3:45 p.m.

Respectfully submitted,



Tim Quinn
Secretary

MEETING OF THE V.E.B.A. BOARD OF TRUSTEES COMMITTEE ON

January 11, 2011

IN THE FINANCE DEPT CONFERENCE ROOM, LOCATED AT 515 CENTER AVENUE,
7TH FLOOR, BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: CHAIR Steve Gray at 2:34 P.M.

OTHERS PRESENT: RICK POTTER, DANEAN WRIGHT, CRYSTAL HEBERT

TRUSTEES

PRESENT:	1	2	3	4	5	6	7	8	9	10	11	12
BRZEZINSKI	S	S	M	M	M	Y	S					
CARPENTER	Y	Y	Y	Y	Y	Y	Y					
COONAN	M	M	Y	Y	S	M	Y					
DEATON	Y	Y	Y	Y	Y	S	M					
GRAY	Y	Y	S	S	Y	Y	Y					
PELTIER	Y	Y	Y	Y	Y	Y	Y					
PETT	Y	Y	Y	Y	Y	Y	Y					
RYDER	Y	Y	Y	Y	Y	Y	Y					
STARKWEATHER	Y	Y	Y	Y	Y	Y	Y					

CODE:

M - MOVED; S - SUPPORTED; Y - YEA; N - NAY; A - ABSENT; E - EXCUSED

TRUSTEES

PRESENT:	13	14	15	16	17	18	19	20	21	22	23	24
BRZEZINSKI												
CARPENTER												
COONAN												
DEATON												
GRAY												
PELTIER												
PETT												
RYDER												
STARKWEATHER												

CODE:

M - MOVED; S - SUPPORTED; Y - YEA; N - NAY; A - ABSENT; E - EXCUSED

7

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION
January 11, 2011
PAGE 1

The meeting, held in the Bay County Finance Department, 7th Floor, Bay County Building, 515 Center Avenue, Bay City, Michigan. Mr. Gray turned the meeting over to Crystal Hebert, Assistant Finance Director. The meeting was called to order by Ms. Hebert at 2:34 P.M. Roll call was taken. All trustees are present.

Ms. Hebert proceeds to the election of officers.

1. Moved and supported to nominate Steve Gray for the position of Chairman.

Mr. Gray accepts.

2. Moved, supported and carried to close the nominations and cast a unanimous ballot for Steve Gray to be Chairman of the Bay County V.E.B.A. Board in 2011.

3. Moved and supported to nominate Bill Deaton for the position of Vice-Chairman.

Mr. Deaton accepts.

4. Moved, supported and carried to close the nominations and cast a unanimous ballot for Bill Deaton to be Vice-Chairman of the Bay County V.E.B.A. Board in 2011.

Ms. Hebert turns the meeting over to the Chairman, Steve Gray.

The minutes from the December 14, 2010 meeting are not yet available.

Mr. Gray called for public input. Seeing no one from the public present, he moved onto petitions and communications.

5. Moved, supported and carried to receive the portfolio value as of 1/5/11.

Value as of yesterday was \$27.5 million.

6. Moved, supported and carried to receive the Notice of Public Meetings for the V.E.B.A.

Announcements:

The next regular meeting is scheduled for Tuesday, February 8, 2011 immediately following the Retirement Board of Trustees Meeting at approximately 2:30 p.m. in the Finance Department, large conference room, 515 Center Avenue, 7th Floor, Bay City, Michigan 48708.

8

MINUTES BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

January 11, 2011

PAGE 2

Unfinished Business:

A trustee inquired about prior discussion regarding bringing in a bond manager for the V.E.B.A. Mr. Potter responds that this issue was referred to the February meeting.

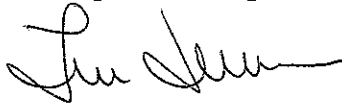
Trustee references the report and questions negative cash. Mr. Potter explains that it is like an overdrawn check. Ms. Wright explains that this report is from Northern Trust, not the money manager, and that it is not really a negative but rather a trade that will be occurring within the next few days.

New Business: None

Miscellaneous Business: None

7. Moved, supported and carried to adjourn the meeting at 2:36 p.m.

Respectfully submitted,



Tim Quinn
Secretary

Transcribed by: Naomi Wallace

Favorites

02 FEB 11

Account number BCVEBA

BAY COUNTY VEBA CONSOLIDATED

◆ Mgr Mix VEBA

Page 1 of 1

Account Name/ Account Number	Cash/ % of account	Short Term/ % of account	Equity/ % of account	Fixed/ % of account	R.E. and Other/ % of account	Pendings/ % of account	Total market value/ % of consolidation
BAYCO-VEBA CASH							
2611831	-55,444.64 -100.00%	55,444.64 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	55,444.64 0.20%
BAYCO - VEBA DODGE & COX BAL							
2613001	-0.13 0.00%	0.13 0.00%	16,442,643.97 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	16,442,644.10 57.88%
BAYCO - VEBA ATALANTA SOSNOFF							
2646670	-270,554.41 -2.27%	270,554.41 2.27%	7,744,821.31 65.02%	3,895,263.54 32.70%	0.00 0.00%	0.00 0.00%	11,910,639.26 41.93%
Total for consolidation	-325,999.18	325,999.18	24,187,465.28	3,895,263.54	0.00	0.00	28,408,728.00
% for consolidation	-1.15%	1.15%	85.14%	13.71%	0.00%	0.00%	100.00%

10

VEBA PORTFOLIO VALUEDODGE & COXCASHTOTAL**2010**

JAN	12,100,888.44	105,522.40	10,584,016.91	22,790,427.75
FEB	12,337,748.85	127,194.75	10,902,240.56	23,367,184.16
MARCH	13,054,743.31	826,655.02	11,327,907.01	25,209,305.34
APRIL	13,991,588.85	244,134.22	11,358,311.61	25,594,034.68
MAY	13,222,769.10	141,086.32	10,679,294.83	24,043,150.25
JUNE	12,809,573.46	125,391.14	10,257,371.77	23,192,336.37
JULY	13,587,649.86	145,077.38	10,694,615.84	24,427,343.08
AUG	13,124,702.33	73,270.04	10,297,435.85	23,495,408.22
SEPT	14,114,246.44	68,829.93	10,930,245.09	25,113,321.46
OCT	14,577,087.64	235,229.40	11,314,209.87	26,126,526.91
NOV	14,475,844.80	285,665.83	11,307,156.37	26,068,667.00
DEC	15,542,608.55	48,361.72	11,636,968.32	27,227,938.59

DODGE & COXCASHATALANTA
SOSNOFFTOTAL**2011**

JAN	15,922,942.49	300,739.41	11,793,776.01	28,017,457.91
FEB				0.00
MARCH				0.00
APRIL				0.00
MAY				0.00
JUNE				0.00
JULY				0.00
AUG				0.00
SEPT				0.00
OCT				0.00
NOV				0.00
DEC				0.00

2010

//